

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. TF-02-521 (RPU-02-7)
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ORDER DENYING MOTION FOR REJECTION OF COMPLIANCE FILING

(Issued November 27, 2002)

On July 15, 2002, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) an application for a temporary and a permanent increase in rates for gas service. The Board docketed the application as RPU-02-7. IPL also filed proposed tariffs, identified as TF-02-424 and TF-02-425, designed to implement the proposed temporary and permanent increases in rates. On October 4, 2002, the Board issued an order approving a temporary rate increase of \$16,909,274. Attached to the order was Schedule E that contained estimated temporary non-gas/non-EECR rate increases for IPL's rate codes. On October 18, 2002, IPL filed compliance tariffs, identified as TF-02-521, to implement the temporary rates set by the Board.

On November 4, 2002, Archer Daniels Midland Company (ADM) and Equistar Chemical, LP (Equistar), filed a motion for rejection of the compliance tariffs filed by IPL. On November 4, 2002, the Board issued an order shortening the time for IPL to respond to ADM and Equistar's motion.

ADM and Equistar stated in their motion that they are the only two Large Contract Demand Transportation customers of IPL and they take service under rate codes 320 and 370. ADM and Equistar stated that IPL proposed an increase in temporary rates of 25.49 percent in the initial proposed tariffs filed July 15, 2002, which allocated \$348,352.88 of the temporary increase in revenue requirement to rate codes 320 and 370.

ADM and Equistar then pointed out that the Board in Schedule E of the October 4, 2002, order indicated that an increase of approximately 32.7 percent was being approved for rate code 320 and 370 customers on a temporary basis. Instead of the 32.7 percent increase reflected in Schedule E, the compliance tariffs filed by IPL reflect an increase of 34.65 percent for rate codes 320 and 370. This will result in a temporary increase in rates of \$473,419.77. Thus, ADM and Equistar argue that the compliance rates are not consistent with the rates approved by the Board on October 4, 2002.

ADM and Equistar also allege they did not receive adequate notice that their temporary increase would be significantly higher than the 25.49 percent uniform percentage increase originally proposed by IPL. ADM and Equistar ask the Board to reject IPL's compliance rates for Large Contract Demand Transportation customers to the extent they reflect a change in the Board's ordered rate design.

On November 12, 2002, IPL filed its response to the motion. IPL argues that the rates in the compliance tariffs comply with the Board's October 4, 2002, order.

IPL points out that the Board established three criteria for implementing a rate design to recover the temporary revenue requirement and the rates reflected in the compliance tariffs are consistent with these criteria. IPL states that the Board recognized that the rates filed to recover the temporary increase in revenue requirement might not comply with all three criteria because of the interrelationships between full service and transportation rate codes and rate structures.

IPL then points out that the percentage increases listed in the Board's order are labeled "estimated" increases, suggesting the purpose of the estimates is to illustrate the intended relationship between temporary and final increases and to present relative relationships of increases among the various rate codes and rate zones. IPL argues that the order allows for differences in the temporary rates filed by IPL and the rates listed in the order.

IPL contends that ADM and Equistar received adequate notice of their temporary increases as intervenors in the proceeding and they had notice of IPL's request for a temporary increase. IPL points out that the Board's temporary rate order and the rate increases listed in Schedule E were estimates and were to show the relationship between the rate codes and were not the exact or correct rates to be put into effect.

The Board finds that the compliance tariffs filed by IPL are consistent with the Board's October 4, 2002, order. That order listed estimated increases to show the relationship among the various rate codes. The Board recognized that the

compliance rates could be somewhat different from those listed in Schedule E when it pointed out in the order that the rates should comply with criteria one and two, but may not comply with criterion three because of the interrelationship between full service and transportation rate codes and structures.

The Board has held in past rate cases that, as with class cost-of-service studies, rate design is not an exact science and the Board's consideration of rate design is guided by what is reasonable under the circumstances rather than what is "correct" because there is not necessarily a "correct" design but only a "reasonable" one. Docket No. RPU-94-2, IES Utilities Inc. "Order Granting Rehearing in Part and Denying Rehearing in Part," (issued 6/30/95). In approving compliance rates in Docket No. RPU-94-2, the Board stated that it reviewed the compliance tariffs for substantial compliance with the Board's order and the reasonableness of the application of the rates. Finally, the Board stated that it recognized there is more than one way to design rates to comply with its orders and the primary inquiry is the reasonableness of the design to meet the requirements established by the Board.

The Board finds that the rates filed in compliance with the order approving temporary rates issued October 4, 2002, are reasonable and substantially comply with the rate design criteria set out in that order. No rate code receives a temporary increase if IPL proposed a rate reduction for permanent rates and no rate code receives a greater increase than the increase proposed for final rates. The Board recognized that after compliance with criteria one and two, some rate codes would

receive a greater increase than the uniform increase to allow recovery of the approved revenue requirement. The proposed permanent rate increase for these rate codes is more than 45 percent and the temporary increase in the compliance tariffs is 34.65 percent. The rate increases for rate codes 320 and 370 substantially comply with the rate design criteria in the October 4, 2002, order.

The Board also finds that the contention that ADM and Equistar did not receive adequate notice is not well founded. Iowa Code § 476.6(13) authorizes the Board to place into effect "any or all of the suspended rates" that are requested by a utility on a temporary basis subject to refund. The Board is then to determine the amount of the temporary increase based upon previously-established regulatory principles. Even though IPL proposed uniform increases for temporary rates, the Board has departed from uniform percentage temporary increases in past cases involving significant final rate design changes. The Board recognized that adherence to uniform temporary increases can produce seemingly unreasonable situations where the temporary increase is significantly higher than the final increase or decrease for some rate codes.

The Board utilized the three criteria established in this case in the temporary rate design for MidAmerican Energy Company in Docket No. RPU-02-2. The Board finds that the rate design it adopted is based upon previously-established regulatory principles and is reasonable considering the final rate design proposed by IPL in this

docket. The Board will deny ADM and Equistar's motion to reject the compliance tariffs filed by IPL.

IT IS THEREFORE ORDERED:

The "Motion for Rejection of Compliance Filing" filed by Archer Daniels Midland Company and Equistar Chemicals, LP, on November 4, 2002, is denied.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 27th day of November, 2002.